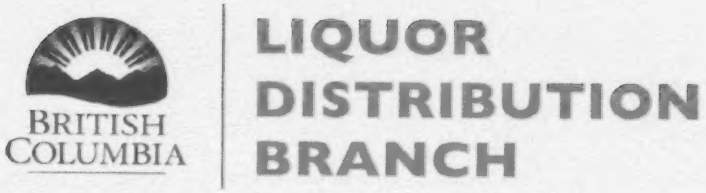
BC Liquor Distribution Branch

2015/16
ANNUAL SERVICE PLAN REPORT



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General Manager and CEO's Accountability Statement

The *BC Liquor Distribution Branch 2015/16 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2015/16 - 2017/18 Service Plan.* I am accountable for those results as reported.

R. Blain Lawson
General Manager and Chief Executive Officer

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General Manager and CEO's Report Letter

Since the launch of the wholesale pricing model on April 1, 2015, the Liquor Distribution Branch (LDB) continued to adapt and implement changes to modernize British Columbia's liquor industry and meet our customers' evolving needs. The shift to a common wholesale price was a necessary step towards putting all liquor retailers on a more equal footing—something industry called for during the 2013 Liquor Policy Review.

To ensure transparency in this newly competitive market, we separated our retail and wholesale operations and worked on reducing red tape for our business partners. In addition, the LDB collaborated with Government partners on amendments to the *Liquor Distribution Act.*

At BC Liquor Stores, a more competitive liquor landscape bolstered our focus on delivering the service and convenience our customers have grown to expect—with a particular emphasis on expanding product selection and product knowledge training for employees.

On the wholesale side of the business, we are developing a strategic plan with a clear emphasis on strengthening stakeholder relationships and providing more streamlined service and communications. Central to this strategy is a more user-friendly, accessible website for industry partners that the LDB's wholesale team is developing to launch this summer.

The changes also provided the opportunity to modernize our technology and systems. We continued working towards a warehouse solution that will increase efficiency and grow along with the LDB. A business plan is underway and we expect to be operational in a new space in 2019.

As a result of strong efforts by our wholesale and retail divisions, the LDB exceeded revenue targets set by the Government, contributing $1.03 billion in 2015/16 to help fund Government services in B.C.

Underpinning all of the LDB's actions in 2015/16 are the organization's commitment to the Taxpayer Accountability Principles of cost consciousness (efficiency), accountability, service, respect and integrity, and the specific strategic priorities set out in the 2015/16 Mandate Letter.

As a branch of the Ministry of Small Business and Red Tape Reduction and Minister Responsible for the Liquor Distribution Branch, the LDB is fully integrated with respect to the Taxpayer Accountability Principles. These principles have been incorporated into orientation and training for the LDB's executive leadership. Moving forward, the LDB will continue working with the Ministry to prioritize accountability and cost control, while maintaining a focus on exceptional customer service for small business clients and customers.

R. Blain Lawson
General Manager and Chief Executive Officer

Purpose of the Organization

In British Columbia, the LDB is one of two branches of Government responsible for the beverage alcohol industry. The *Liquor Distribution Act* gives the LDB the sole right to purchase beverage alcohol both within B.C. and from outside the province, in accordance with the federal *Importation of Intoxicating Liquors Act*. The Liquor Control and Licensing Branch (LCLB) licenses private liquor stores, restaurants, pubs and manufacturers, and enforces regulations under the *Liquor Control and Licensing Act*.

Reporting to the Minister of Small Business, Red Tape Reduction and Responsible for the Liquor Distribution Branch, the LDB:

- Operates a province-wide, retail/wholesale beverage alcohol business, within a mixed public-private model;
- Is responsible for the importation and distribution of beverage alcohol in B.C.;
- Has a workforce of more than 4,000 full- and part-time employees;[1]
- Operates 197 BC Liquor Stores (BCLS), a Head Office, two Wholesale Customer Centres and two Distribution Centres; and,
- Has a General Manager and CEO who is responsible for administering the *Liquor Distribution Act*, which includes the oversight of BCLSs, subject to direction from the Minister.

As part of B.C.'s mixed-model retail system, the LDB is committed to providing customers with an enhanced shopping environment, an expansive product selection and a high level of service.

The LDB and LCLB have a shared responsibility to encourage the responsible consumption of beverage alcohol and work closely together to coordinate policies and programs to this end. Visit www.bcldb.com and click on "About Us" for more information about the LDB.

On July 30, 2015 responsibility for the LDB and LCLB moved from the Ministry of Justice to the newly created Ministry of Small Business and Red Tape Reduction and Minister Responsible for the Liquor Distribution Branch. For information on the LDB's corporate governance structure and an organizational overview, see Appendix B.

Strategic Direction and Context

The LDB's 2015/16 – 2017/18 Service Plan was informed by the 2015/16 Mandate Letter and the Taxpayer Accountability Principles (TAP). Together, the Mandate Letter and TAP provide strategic direction to the LDB and direct the organization to take specific actions in accordance with Government policy. Along with economic and market trends, these principles and mandate are factored into the LDB's business decisions.

Beverage alcohol is a discretionary consumer product and sales are affected by economic conditions. As the economy continues to improve and consumer confidence rebuilds, liquor sales have also improved across all categories—beer, wine, spirits and refreshment beverages. This is an indication that consumers are more sophisticated and enjoy a wide range of tastes and a greater

[1] As of March 31, 2016.

variety of products. The LDB continues to closely monitor trends in sales and expenses to make adjustments to forecasts and budgets as necessary.

Growing economy
The province's economy saw another year of solid growth. In 2015, B.C.'s economic growth exceeded the national average.

As the economy continued to expand in 2015, rising consumer confidence contributed to increased consumer spending. This, combined with an expansion of beverage alcohol retailing in BC Liquor Stores, a very hot spring and summer and two Easter weekends during the fiscal year resulted in a 9.7 per cent increase in liquor sales over the previous year.

Modernizing B.C.'s liquor industry
2015 was a significant year for the LDB, as the organization implemented a new wholesale pricing model as part of the modernization of B.C.'s beverage alcohol industry. All retailers, including BCLS, made a fundamental shift toward purchasing beverage alcohol products from the LDB at a common wholesale price. In addition, retailers are able to set their own consumer prices.

Evolving liquor industry
In order to be more responsive to an evolving liquor industry, the LDB increased the separation between its retail and wholesale operations. This created an opportunity for the LDB to address the risks posed by an aging infrastructure by significantly updating and improving the efficiency of its own business systems, and enabled each division to adopt a more focused approach tailored to customer needs.

Report on Performance

The LDB's Report on Performance describes how the organization implemented its strategies in order to meet its performance goals. It illustrates how the LDB balances its financial obligations with the non-financial activities outlined in its mandate. The strategies presented are in alignment with the Government's expectations as outlined in the 2015/16 Mandate Letter and the Taxpayer Accountability Principles (TAP). As a means of evaluating the organization's overall health and performance—and ensuring performance aligns with TAP—the LDB engages in ongoing dialogue and reporting with the Ministry.

Benchmarking

The LDB's business structure changed significantly on April 1, 2015 and resulted in creating two distinct operations: retail and wholesale. With the introduction of the new wholesale model at that time, trends experienced in prior years may no longer be relevant. As such, the LDB's regular benchmark study—which measures the LDB against a number of other organizations, including provincial liquor boards, non-Canadian Government liquor authorities, private distribution organizations and private retailers—will be deferred until more information is available.

Goals, Strategies, Measures and Targets

The LDB regularly re-examines its goals, performance measures, strategies and targets with the Ministry to ensure they reflect critical aspects of the LDB's performance, align with its key strategic directions, and reflect the organization's commitment to the Taxpayer Accountability Principles as laid out by Government.

Goal 1: Financial Performance

Meet financial objectives approved by Government.

Strategy

- Grow sales and effectively manage operating expenses

Performance Measure 1: Net Income

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Net income (in $millions)	929.6	877.0	935.2	880.6	1,031.3	983.3	994.0

Discussion

Net income is the contribution made to the provincial Government by the LDB from the total sales of beverage alcohol in the province and is audited by the BC Auditor General. LDB net income is a significant contributor to provincial Government revenues, and reflects the organization's commitment to the Taxpayer Accountability Principles of cost consciousness (efficiency) and accountability.

The LDB's net income for 2015/16 was $1.03 billion, or 17.1 per cent higher than target. Net income in 2015/16 was 10.3 per cent (or $96.1 million) higher than in 2014/15.

It's important to note that the LDB's future revenue targets as displayed here were set before the new wholesale pricing model was implemented, so the full impacts were not known at the time. Now that the new model has been operational for more than a year, the LDB will be re-assessing its targets for the next Service Plan Report, to be published in early 2017.

Provincial liquor sales in 2015/16 were $3.16 billion, $314.9 million or 11.1 per cent higher than budgeted, and $279.1 million or 9.7 per cent higher than the prior year. The increase is a result of higher sales volumes in all categories.

Increased sales—and the resulting positive impact on net income—are the result of a number of factors including an unusually hot spring and summer, increased hours of operation at BC Liquor Stores (including opening on Sundays), a leap year, two Easter holiday weekends, a greater number of supplier promotions, and changing consumer product consumption.

Goal 2: Workplace Quality and Employee Excellence

Create a work environment that encourages greater employee engagement.

Strategies

- Enhance staff skills and engagement through management development, employee training and increased communication.
- Implement succession management plans for the organization.
- Provide a safe, healthy and harassment-free workplace.

Performance Meaure 2: Employee Engagement

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Employee engagement	N/A	69	N/A	70	71	N/A	71

Discussion

The LDB measures employee engagement every two years through the Workplace Environment Survey (WES) by asking employees about their work environment—a performance measure that reflects the organization's commitment to the Taxpayer Accountability Principle of respect.

Compared to global workplace engagement averages which typically average around 60, the LDB's 2015/16 WES score of 71 indicates that employee engagement trended upwards by a full two points in spite of major changes that took place within the organization related to the wholesale pricing model implementation on April 1, 2015. Given the widespread organizational changes that are still on the horizon, the LDB believes that aiming for a one point increase in employee engagement over the previous target, every two years, is a challenging target.

Goal 3: Customer Experience

Maintain a high level of wholesale and retail customer satisfaction.

Strategies:

- Continuously refresh the store network.
- Continuously provide enhanced customer services.

Performance Meaure 3.1: Retail Customer Satisfaction

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Retail customer satisfaction	98%	N/A	98%	N/A	N/A	80%[1]	N/A

[1] Going forward, BCLS will be examining different data to determine its retail customer satisfaction levels, which will make it more challenging to maintain previous performance levels in the 98 per cent range.

Discussion

Historically, every two years, BC Liquor Store retail customers are surveyed by a professional survey company to determine customer satisfaction, reflecting the organization's commitment to the Taxpayer Accountability Principle of service. Due to the importance of customer satisfaction to the LDB's success, targets have in the past been set in the 90 per cent range for retail customers. Actual results in the past two surveys have exceeded these targets at 98 per cent.

Starting in 2016/17, BCLS will be examining different data to determine its Retail Customer Satisfaction levels, which will make it more challenging to maintain the current performance level of 98 per cent. Historically, the Retail Customer Satisfaction performance measure has been based on customers who rated their experience as "good," "very good" or "excellent." However, going forward, the measure will be based only on customers who rate their experience as "very good" or excellent." This reporting change will enable the organization to determine meaningful metrics with greater potential for improvement, but it will also reduce anticipated reporting levels of customer satisfaction from 2016/17 onward. Given this change, the LDB's upcoming targets are realistically set at 80 per cent.

Performance Meaure 3.2: Wholesale Customer Satisfaction

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Wholesale customer satisfaction	88%	N/A	N/A[1]	N/A	N/A	90%	N/A

[1] Generally, the LDB conducts its wholesale customer satisfaction survey every two years and 2014/15 was a scheduled year for the survey. However, given the vast amount of ongoing activities related to the separation of the LDB's retail and wholesale divisions and the April 1, 2015 transition, the LDB is allowing some time for wholesale customers to settle into new processes, which is why there is no Actual Result for 2014/15 for Wholesale Customer Satisfaction. The next comprehensive wholesale customer satisfaction survey is scheduled for 2016/17.

Discussion

Historically, every two years, BC Liquor Store wholesale customers (bars, restaurants and private retailers) are surveyed by a professional survey company to determine customer satisfaction, an action that aligns with the organization's commitment to the Taxpayer Accountability Principle of service. Customer satisfaction is central to the LDB's success and targets in the 90 per cent range have been set for wholesale customers. Setting a consistently high bar for customer satisfaction ensures the LDB maintains its customer focus.

Goal 4: Business Effectiveness

Maintain operating efficiencies in a climate of constant change.

Strategies

- Maximize the potential efficiencies available through improved distribution operations.
- Increase the use of current and cost-effective technology.

Performance Measure 4.1: BC Liquor Store sales per square foot

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
BC Liquor Store sales per square foot	$1,271	$1,222	$1,236	$1,190	$1,327	$1,189	$1,207

Discussion

BC Liquor Store sales per square foot is based on the annual dollar sales of the store system divided by total store system square footage, which measures how well the LDB converts its floor space into sales. This performance measure reflects the LDB's commitment to the Taxpayer Accountability Principles of cost consciousness (efficiency), accountability and service.

In 2015/16, BCLS sales per square foot increased over 2014/15 due predominantly to the wholesale and retailing of beverage alcohol changes implemented on April 1, 2015. The changes in retail put private retailers and BC Liquor Stores on a more equal footing and permitted Government stores to open on Sundays, extend their operating hours until 11 p.m. and install *coldzone* refrigeration, all of which contributed to an overall increase in counter sales.

It's important to note that the LDB's future targets for BC Liquor Store sales per square foot were set before the new wholesale pricing model was rolled out, when the full impacts of the new model were not known. Now that the new model has been operational for more than a year, the LDB will be re-assessing its targets for this performance measure for the next Service Plan Report, to be published in early 2017.

Performance Measure 4.2: Distribution Centre labour cost per case shipped

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Distribution Centre labour cost per case shipped	$1.75	$1.68	$1.70	$1.75	$1.81	$1.76	$1.77

Discussion

The Distribution Centre labour cost per case shipped aligns with the LDB's commitment to the Taxpayer Accountability Principles of cost consciousness (efficiency), accountability and service. The cost per case shipped increased to $1.81 in 2015/16, driven by a higher than anticipated increase in individual bottle picks to support small business customers. This was the result of the April 2015 split of LDB Wholesale from BCLS Retail, and the ensuing process that all B.C. retail outlets purchase directly from LDB wholesale at the same wholesale price. (Prior to April 2015, a majority of smaller retail customers purchased through BC Liquor Stores.) In 2016/17, the LDB expects bottle pick growth to level off, which will significantly reduce the higher labour costs associated with individual bottle picks. Coupled with an increase in overall cases shipped, the LDB expects cost per case to stabilize and come down slightly.

Performance Measure 4.3: Distribution Centre order fill rate

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Distribution Centre line fill order rate	93%	93%	91.5%	93%	91%	93%	93%

Discussion

The Distribution Centre line fill order rate, which reflects the LDB's commitment to the Taxpayer Accountability Principles of cost consciousness (efficiency), accountability and service, was below the targeted level in 2015/16. This was due primarily to sustained and unplanned consumer demand

as a result of an unseasonably long and dry spring and summer in many parts of the province. In addition, the LDB experienced unprecedented demand for specific products, industry-wide shortages and new growth areas with stronger demand than forecasted. The LDB's Wholesale team has been partnering with suppliers and customers to increase sales and inventory forecasts of growth areas to ensure enough product can be supplied to meet the needs of customers.

Goal 5: Corporate Social Responsibility

Encourage the responsible use of beverage alcohol and minimize the impact of operations on the environment.

Strategies

- Prevent sales to minors or intoxicated persons in BCLS through staff education and enforcement of ID-checking requirements.
- Promote awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders.
- Reduce the impact of operations on the environment by reducing waste, increasing recycling rates and achieving carbon neutrality on an annual basis.

Performance Measure 5.1: BC Liquor Store compliance with ID-checking requirements

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Store compliance with ID-checking requirements	92%	82%	85%	100%	83%	100%	100%

Discussion

The LDB continued its long-term commitment to corporate sustainability and social responsibility – by minimizing minors' access to alcohol through stringent ID-checking procedures. This measure reflects the LDB's commitment to the Taxpayer Principle of accountability. The legal age to purchase liquor in BC is 19. In 2011/12, the LCLB introduced an ID-checking program for Government and private liquor stores that uses underage agents to test compliance. The LDB uses compliance statistics gathered by the LCLB for this measure.

The LDB sets a target of 100 per cent to ensure the organization strives to achieve perfection and to reflect the significance it places on this performance measure. In 2015/16, the LDB's compliance rate was 83 per cent. To reinforce the importance of this measure, mid-way through 2015, the LDB began replacing its existing ID-checking program by rolling out a new program that requires all customers who appear to be under the age of 30 to provide two pieces of identification. The 'Check 30' program was fully implemented by the end of October, 2015, therefore the 2015/16 compliance rate reflects a mixture of the old and new programs.

Performance Measure 5.2: Customer awareness of LDB corporate social responsibility programs

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Customer awareness of LDB corporate social responsibility programs	91%	N/A	93%	N/A	N/A	90%	N/A

Discussion

The LDB places posters and other promotional materials in all of its 197 BCLS locations that encourage the responsible use of beverage alcohol—an action that reflects the organization's commitment to the Taxpayer Accountability Principle of accountability. The themes in these materials, such as the prevention of drinking and driving or underage drinking, change every month. Every second year, the LDB measures customer recall of these promotional materials through the same customer survey the LDB uses to rate its retail customer satisfaction (see performance measure 3.1). While there was no customer survey in 2015/16, the target is once again set at 90 per cent for 2016/17 to ensure the LDB continues to develop impactful and relevant messaging that catches the attention of customers. As with Retail Customer Satisfaction, the survey tool for measuring awareness of these programs is being modified, which may make it more challenging to meet or exceed 2014/15's Actual of 93 per cent. Given this, the LDB's upcoming targets remain conservatively set at 90 per cent.

Performance Measure 5.3: Waste Diversion Rate at Head Office and Vancouver Distribution Centre

Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Waste Diversion Rate at Head Office and Vancouver Distribution Centre	N/A[1]	N/A[1]	79%	75%	85%	80%	80%

[1] This performance measure was introduced in 2014/15.

Discussion

The LDB launched its *Waste Reduction and Recycling Strategy* in June 2014 and, in 2015/16, also rolled out a comprehensive recycling program at Head Office and the Vancouver Distribution Centre to divert as much recyclable material as possible away from landfills. Through these programs, the LDB is demonstrating its commitment to the Taxpayer Accountability Principle of accountability and integrity.

Waste diversion is a measure of total material recycled as a percentage of all waste material generated. The LDB measured waste diversion rates for two specific workplaces—Head Office and

Vancouver Distribution Centre—by weighing a representative sample of waste material collected over 24 hours with a focus on cardboard, plastic, organic material, wood waste, recyclable containers, mixed paper and garbage. In 2015/16 the LDB surpassed its target of 75 per cent. Due to the fact that the performance measure will be measured differently and is being expanded to include other materials next year, the LDB will be maintaining its conservative target of 80 per cent for 2016/17 and 2017/18.

In 2015/16 the LDB also took steps to improve recycling at the Kamloops Distribution Centre and at BC Liquor Stores. This included setting up an organics recycling program at 14 BCLS locations with the goal of expanding to more than 38 locations in 2016/17.

In addition, in December 2015, the LDB introduced redesigned plastic shopping bags in its stores to reduce plastic waste by nine per cent, or 21,000 kg of plastic per year.

Finally, the LDB measures the total annual weight of cardboard, plastic and paper material that it sends directly to recycling plants from its head office, distribution centres and BC Liquor Stores. In 2015, this amounted to 2,543 metric tonnes. This does not include material picked up by recycling service providers directly from BC Liquor Stores.

Financial Report

Discussion of Results

Actual 2015/16 financial results compared to 2014/15 actual results

On April 1, 2015, the LDB implemented a new wholesale model, eliminated purchase discounts, and introduced a single wholesale price for beverage alcohol retailers.

The LDB currently has both a wholesale operation and retail (BCLS) operation. That means BCLS are now a customer of the LDB wholesale line of business and operate under a retail margin like any other retailer. For information on BCLS operating results, please see Appendix A of this document. Total LDB sales include sales from both the retail and wholesale operations. In order to avoid double counting, all transactions between BCLS and the wholesale operations have been eliminated from the LDB financial results.

Provincial sales in 2015/16 were $3.16 billion—$314.9 million, or 11.1 per cent, higher than budget. This represents an increase of $279.1 million, or 9.7 per cent, from the prior year sales of $2.88 billion, and was the result of strong sales in all product categories, improved product mix, and an overall volume increase of 4.7 per cent. With the April 1 elimination of purchase discounts, all prior year sales results are now reported net of discounts for comparability.

Total LDB gross profit was $1.35 billion in 2015/16, an increase of $152.9 million or 12.8 per cent. As a percentage of revenues, gross profit improved from 41.5 per cent to 42.7 per cent when compared to fiscal 2014/15. The improved gross profit ratio is due to a combination of product mix, increased supplier promotions and retail margin.

Operating expenses were 10.3 per cent of sales for the fiscal year and lower than the previous year's expenses of 10.7 per cent. The LDB continues to maintain its expenses as a percentage of sales by carefully managing its discretionary expenses and staffing in all areas of operations.

Expenses were $326 million, $18.2 million higher than in fiscal 2014/15. The largest changes in expenses occurred in the following areas:

- Employment expenses increased by $15.8 million due to negotiated rate increases, extended BCLS operation hours and more stores open on Sundays. Overall, the employment rate as a percentage of sales at 5.9 per cent was comparable to the prior year.
- Rent expenses increased by $1.8 million due to store relocations, new store openings and rent renewals.
- Other administrative expenses totalled $66.4 million, slightly lower than the 2014/15 expenses of $67.6 million. Administrative expenses include professional fees, repairs and maintenance, amortization, data processing and merchandising.
- Bank charges increased by $1.7 million due to increased use of credit cards and higher merchant fees.

For 2015/16, the LDB's net income and contribution to Government was $1.03 billion. This was an increase of $96.1 million compared to the previous year, and $150.7 million higher than budgeted.

Table 1: Summary of financial results

For the five fiscal years ended March 31, 2016

$ millions	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Budget	2015/16 Actual	2015/16 Variance	2014/15 – 2015/16 Variance
Sales[1]	2,702.3	2,754.1	2,745.5	2,877.9	2,842.1	3,157.0	314.9	279.1
Cost of Sales[2]	1,520.7	1,552.1	1,594.3	1,683.3	1,644.4	1,809.5	(165.1)	(126.2)
Gross Profit	1,181.6	1,202.0	1,151.2	1,194.6	1,197.7	1,347.5	149.8	152.9
Operating Expenses - Employment	164.3	165.3	162.8	172.0	177.0	187.8	(10.8)	(15.8)
Operating Expenses - Rent	37.0	37.9	39.7	42.5	45.6	44.3	1.3	(1.8)
Operating Expenses - Administration[2]	79.7	81.7	84.3	93.3	102.5	93.9	8.6	(0.6)
Operating Income	900.6	917.1	864.4	886.8	872.6	1,021.4	148.8	134.6
Net Income	911.1	929.6	877.0	935.2	880.6	1,031.3	150.7	96.1
Gross Margin (%)	43.7%	43.6%	41.9%	41.5%	42.1%	42.7%	0.6%	1.2%
Operating Expenses to Sales (%)	10.4%	10.3%	10.4%	10.7%	11.4%	10.3%	1.1%	0.4%
Net Income to sales (%)	33.7%	33.8%	31.9%	32.5%	31.0%	32.7%	1.7%	0.2%
Inventory Turnover	18	18	18	18	N/A	17	-	-
Capital	19.0	10.4	12.9	25.2	34.0	23.1	10.9	2.1
Debt	0.2	0.1	0	0	0	0	0	0
Retained Earnings	0	0	0	0	0	0	0	0

[1]On April 1, 2015, the LDB implemented a new wholesale pricing model and eliminated wholesale purchase discounts. Sales for fiscal 2015/16 and prior years are presented net of discounts for comparability.

[2]In 2015/16, the LDB changed its accounting policy regarding outbound freight costs and now include these costs in the cost of goods sold. The impact of this change was to increase cost of sales and decrease administration (transportation) expenses by the same amount. There was no impact to net income. Prior years have been reclassified for comparability.

2015/16 capital expenditures of $23.1 million were comparable to the $25.2 million spent in the previous year (see Table 1). Capital expenditures were related to ongoing operational capital requirements such as vehicle and equipment replacements, information systems hardware and licenses, store tenant improvements and upgrades to the store point-of-sales system.

During 2015/16, the retail customer count at BCLS increased 10.6 per cent to 40.3 million customers from 36.4 million the prior year. This was due to increased operating hours and more stores open on Sunday and statutory holidays. The average retail customer transaction value at BCLS stores increased 3.3 per cent to $34.59 from $33.46. The increase in average transaction value reflects BCLS improved product selection and the introduction of a retail margin, as well as changes in customer purchases towards unique and specialty products like B.C. Vintners Quality Alliance (VQA) wines and craft beers.

The LDB holds inventory on average for 21 days with an annual inventory turn rate of 17. This inventory turn rate is consistent with previous years and reflects the close management of LDB inventories.

Product Categories
LDB sales totalled $3.2 billion and exceeded target by $314.9 million or 11.1 per cent. This was an increase of $279.1 million or 9.7 per cent compared to the previous year. The higher sales were due to a combination of an unusually hot spring and summer, expanded store operating hours, the implementation of *coldzones* in select stores and two Easter weekends that occurred during the fiscal year.

Table 2: Sales by Major Category ($000s)

						Change vs. Previous Year (2015/16 vs. 2014/15)	
	2015/16	**2014/15**	**2013/14**	**2012/13**	**2011/12**	**$**	**%**
Spirits	786,803	726,108	703,755	719,542	710,911	60,695	8.4
Wine	1,074,860	967,132	905,951	887,197	848,597	107,728	11.1
Refreshment	180,366	151,937	131,926	118,526	112,100	28,429	18.7
Beer	1,112,911	1,030,616	1,002,051	1,027,395	1,022,474	82,295	8.0
Other	2,099	2,125	1,842	1,426	8,204	(26)	(1.2)
Total Sales[1]	**3,157,039**	**2,877,918**	**2,745,525**	**2,754,086**	**2,702,286**	**279,121**	**9.7**

[1]On April 1, 2015, the LDB implemented a new wholesale pricing model and eliminated wholesale purchase discounts. Sales for fiscal 2015/16 and prior years are now presented net of discounts for comparability.

As in prior years, the majority of LDB sales were from the beer and wine categories. The sales mix has shifted slightly in 2015/16 as the sales percentage from spirits and beer decreased and the sales percentage from wines and refreshment beverages increased.

Refreshment beverages had the largest increase as a percentage of the LDB overall product mix. This has been the trend as consumers move towards wines and refreshment beverages.

Consistent with 2014/15, the refreshment beverage category had the strongest percentage growth, increasing by 18.7 per cent or $28.4 million. This was followed by increases of: wine by 11.1 per cent or $107.7 million; spirits by 8.4 per cent or $60.7 million; and beer by 8.0 per cent or $82.3 million.

Table 3: Sales by Major Category in Litres (000s)

						Change vs Previous Year (2015/16 vs. 2014/15)	
	2015/16	2014/15	2013/14	2012/13	2011/12	Litre	%
Spirits	25,810	24,602	24,161	24,188	24,181	1,208	4.9
Wine	73,805	69,302	65,803	63,408	61,671	4,503	6.5
Refreshment	40,300	35,245	31,476	27,551	26,028	5,055	14.3
Beer	292,574	283,857	272,643	270,524	272,825	8,717	3.1
Other	156	148	138	120	131	8	5.4
Total Sales	**432,645**	**413,154**	**394,221**	**385,791**	**384,836**	**19,491**	**4.7**

Historically, the beer category has the highest volume of sales followed by wines, refreshment beverages and spirits. These trends were consistent in 2015/16; however, the product mix did shift as the litre percentage of beer decreased 1.1 per cent with offsetting increases in wine and refreshment beverages.

In terms of volume, there was an overall increase of 4.7 per cent compared to the previous year. The refreshment beverage category had the largest volume increase at 14.3 per cent, followed by wine at 6.5 per cent, spirits at 4.9 per cent and beer at 3.1 per cent when compared to last year.

Customer Sales

Over the past year there has been a focus on improving the customer experience in BCLS through increased hours of operation, the addition of refrigeration and changing product mixes. As a result, retail customers have contributed a higher percentage to overall LDB sales than in prior years. In 2015/16, BCLS retail customers contributed 43.7 per cent of the total LDB sales, an increase from 41.7 in the prior year.

Table 4: Provincial Sales by Customer based on Dollar Sales

For the five years ended March 31, 2016

(as a percentage of total dollar sales)	2015/16	2014/15	2013/14	2012/13	2011/12
BCLS counter customers	43.7	41.7	42.9	43.4	44.0
Licensee Retail Stores	30.6	31.8	31.1	31.1	30.7
Licensed Establishments	16.9	17.2	17.2	17.0	17.6
Other customers	6.0	6.3	5.7	5.2	4.3
Agency Stores	2.8	3.0	3.1	3.3	3.4
Total LDB Sales (%)	100.0	100.0	100.0	100.0	100.0

Data Source: LDB Oracle Financial System.

Table 5: Provincial Sales by Customer based on Litre Sales

For the five years ended March 31, 2016

(as a percentage of total litre sales)	2015/16	2014/15	2013/14	2012/13	2011/12
BCLS counter customers	34.4	32.8	33.9	34.1	34.7
Licensee Retail Stores	39.9	41.5	40.5	40.4	39.4
Licensed Establishments	18.3	18.6	18.9	19.1	19.5
Other customers	3.4	3.0	2.6	2.2	2.1
Agency Stores	4.0	4.1	4.1	4.2	4.3
Total LDB Sales (%)	100.0	100.0	100.0	100.0	100.0

Data Source: LDB Oracle Financial System.

Table 6: Customer Sales Change

For the five years ended March 31, 2016

	2015/16	2014/15	2013/14	2012/13	2011/12
BCLS counter customers	14.8	1.9	-1.5	0.6	1.8
Licensee Retail Stores	5.6	6.9	-0.1	3.1	4.3
Licensed Establishments	7.5	5.0	0.8	-1.4	2.2
Other customers	6.4	16.4	8.1	23.2	8.8
Agency Stores	1.9	1.3	-6.0	-1.0	-3.8
Overall LDB Sales Increase (%)	9.7	4.8	-0.3	1.9	2.7

Data Source: LDB Oracle Financial System.

The LDB had an overall sales increase of 9.7 per cent from the prior year, with all customers experiencing increased sales compared to the prior year. The largest increase was led by sales to BCLS retail customers, due to greater convenience for customers as a result of longer operating hours, expansion of Sunday and holiday openings, and refrigeration in more stores. Fiscal 2015/16 also included two Easter holiday weekends which resulted in increased sales during those periods.

Remittances to Government agencies
The LDB paid $1.4 billion to various Government agencies during fiscal 2015/16.

Table 7: Remittances to Government Agencies

(in $000s)

	2015/16	2014/15	2013/14	2012/13	2011/12
FEDERAL GOVERNMENT					
Custom Duties and Excise Tax	157,656	141,946	140,481	141,460	140,962
GST/HST	68,636	65,264	71,056	162,186	156,744
Total	**226,292**	**207,210**	**211,537**	**303,646**	**297,706**
PROVINCIAL GOVERNMENT					
LDB Net Income	1,031,271	935,233	876,979	929,559	911,145
Social Services Tax	137,565	127,726	112,369	-	5
Liquor Control and Licensing	422	421	419	420	420
Total	**1,169,258**	**1,063,380**	**989,767**	**929,979**	**911,570**
MUNICIPAL GOVERNMENT					
Property Taxes	912	1,179	1,283	1,200	1,360
Business Licenses	36	33	35	37	35
Total	**948**	**1,212**	**1,318**	**1,237**	**1,395**
Total Remittances	**1,396,498**	**1,271,802**	**1,202,622**	**1,234,862**	**1,210,671**

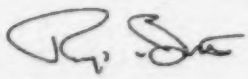
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the British Columbia Liquor Distribution Branch have been prepared by management in accordance with International Financial Reporting Standards. Any financial information contained elsewhere in the annual report has been reviewed to ensure consistency with the financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner.

The Office of the Auditor General of British Columbia has performed an independent audit of the financial statements of the Liquor Distribution Branch. The Auditor's Report outlines the scope of this independent audit and expresses an opinion on the financial statements of the Liquor Distribution Branch.

R. Blain Lawson
General Manager and Chief Executive Officer



Roger M. Bissoondatt, CPA,CA, CMA
Chief Financial Officer

Vancouver, British Columbia
May 12, 2016

INDEPENDENT AUDITOR'S REPORT

To the Minister of Small Business, Red Tape Reduction and Responsible for the Liquor Distribution Branch, Province of British Columbia

I have audited the accompanying financial statements of the British Columbia Liquor Distribution Branch, which comprise the statement of financial position as at March 31, 2016, and the statement of comprehensive income, statement of due (to) from the Province of British Columbia, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
Independent Auditor's Report

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the British Columbia Liquor Distribution Branch as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Victoria, British Columbia
May 12, 2016

Russ Jones, FCPA, FCA
Deputy Auditor General

OFFICE OF THE
Auditor General
of British Columbia

Liquor Distribution Branch

Statement of Comprehensive Income

For the years ended March 31, 2016 and 2015

(in thousands of dollars)

Year ended March 31,	Note	2016	2015
Sales	4	3,157,039	2,877,919
Cost of sales		(1,809,582)	(1,683,337)
Gross profit		1,347,457	1,194,582
Administration expenses	5,13	(320,318)	(300,811)
Transportation expenses	5	(1,153)	(1,047)
Marketing expenses	5	(4,551)	(5,923)
Net operating income		1,021,435	886,801
Other income		9,836	11,502
Net income before other items		1,031,271	898,303
Gain on sale		-	36,930
Net income and comprehensive income		1,031,271	935,233

The accompanying notes are an integral part of these financial statements.

Liquor Distribution Branch

Statements of Due (To)From the Province of British Columbia

For the years ended March 31, 2016 and 2015

(in thousands of dollars)

Year Ended March 31,	2016	2015
Balance beginning of year	3,608	(427)
Net income and comprehensive income	(1,031,271)	(935,233)
Payments to the Province of British Columbia	1,015,229	939,268
Balance end of year	(12,434)	3,608

The accompanying notes are an integral part of these financial statements.

Liquor Distribution Branch

Statements of Financial Position

As at March 31, 2016 and 2015

(in thousands of dollars)

As at March 31,	Note	2016	2015
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	6	48,792	47,851
Intangible assets	7	20,128	14,664
Prepaid expenses - long term	8	1,855	1,821
		70,775	64,336
CURRENT ASSETS			
Due from Province of British Columbia	9	-	3,608
Inventories	10	98,983	89,577
Prepaid expenses	8	5,015	5,170
Accounts receivable	11	12,737	9,241
Cash		17,690	14,285
		134,425	121,881
TOTAL ASSETS		205,200	186,217
LIABILITIES			
NON-CURRENT LIABILITIES			
Other long-term liabilities	12,13,14	28,215	26,542
		28,215	26,542
CURRENT LIABILITIES			
Due to Province of British Columbia	9	12,434	-
Accounts payable and accrued liabilities	14,15	164,551	159,675
		176,985	159,675
TOTAL LIABILITIES		205,200	186,217

Approved for issue on May 12, 2016 by:

R. Blain Lawson
General Manager and Chief Executive Officer

Roger M. Bissoondatt, CPA, CA, CMA
Chief Financial Officer

The accompanying notes are an integral part of these financial statements.

Liquor Distribution Branch

Statements of Cash Flows

For the years ended March 31, 2016 and 2015

(in thousands of dollars)

Year Ended March 31,	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income and comprehensive income		1,031,271	935,233
Adjustments for:			
Depreciation and amortization		16,661	16,295
Gain on retirement/disposal of property and equipment		(45)	(37,435)
Rent and lease amortization		(336)	(642)
Accrued employee benefits		2,008	1,885
		1,049,559	915,336
(Increase)/decrease in long-term assets		(34)	39
(Increase)/decrease in working capital		(7,866)	22,575
Cash flows from operating activities		1,041,659	937,950
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	6	(13,088)	(15,884)
Acquisition of intangible assets	7	(10,040)	(9,357)
Proceeds from disposal of property and equipment		107	40,113
Cash flows used in investing activities		(23,021)	14,872
CASH FLOWS USED IN FINANCING ACTIVITIES			
Payments to the Province of British Columbia	9	(1,015,229)	(939,268)
Payments on capital leases		(4)	(27)
Payments on tenant improvement loans		-	(7)
Cash flows used in financing activities		(1,015,233)	(939,302)
NET INCREASE IN CASH		3,405	13,520
CASH - BEGINNING OF YEAR		14,285	765
CASH - END OF YEAR		17,690	14,285

The accompanying notes are an integral part of these financial statements.

1. Purpose of the Branch

The British Columbia Liquor Distribution Branch (the LDB) is one of two branches of the Province of British Columbia (the Province) responsible for the beverage alcohol industry in British Columbia and reports to the Ministry of Small Business and Red Tape Reduction.

The LDB obtains its authority for operation from the *British Columbia Liquor Distribution Act* (the Act). As stated in Section 2 of the Act, the LDB has the exclusive right to purchase liquor for resale and reuse in the Province in accordance with the provisions of the *Importation of Intoxicating Liquors Act (Canada).*

The LDB is reported in the public accounts on a modified equity basis, in a manner similar to a commercial Crown corporation.

2. Basis of presentation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis. The accounts have been prepared on a going concern basis.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the LDB's functional currency. All financial information has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the LDB's accounting policies. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In determining and applying accounting policies, judgement is often required where the choice of specific policy, assumption or account estimate to be followed could materially affect the reported results or net position of the LDB, should it later be determined that a different choice would be more appropriate.

2. Basis of presentation (continued)

Management considers the following to be areas of significant judgement and estimation for the LDB due to greater complexity and/or being particularly subject to the exercise of judgement:

i) Property and equipment
The determination of the useful economic life and residual values of property and equipment is subject to management estimation. The LDB regularly reviews all of its depreciation rates and residual values to take account of any changes in circumstances, and any changes that could affect prospective depreciation charges and asset carrying values.

ii) Employee benefits – Retiring allowances
Employees who are eligible to retire and receive pension benefits under the Public Service Pension Plan are granted full vacation entitlement for the final calendar year of service. The LDB recognizes a liability and an expense for retiring allowances when benefits are earned and not when these benefits are paid. These obligations are valued by independent actuaries.

3. Significant accounting policies

The accounting policies below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

(a) Foreign currency translation
The LDB in the normal course of business purchases product in foreign currency. Any foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the date of the statement of financial position.

(b) Financial instruments
Financial assets are recognized when the LDB has rights or other access to economic benefits. Such assets consist of cash or a contractual right to receive cash or another financial asset. The LDB derecognizes a financial asset when the contractual rights to the cash flows from the asset have expired or have been transferred and all the risks and rewards of ownership are substantially transferred.

All of the LDB's financial assets are designated as loans and receivables and deposits. The LDB initially recognizes loans and receivables and deposits on the date that they originate.

3. Significant accounting policies (continued)

Financial liabilities are recognized when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset. Financial liabilities are derecognized when they are extinguished.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the LDB has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The LDB has the following categories of financial assets and financial liabilities:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the LDB provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities of greater than 12 months after the statement of financial position date which are classified as non-current assets. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any provision for impairment. Any resulting income or expense is recognized in the statement of comprehensive income. Loans and receivables include accounts receivable, cash on hand and bank deposits in transit.

i) Accounts receivable
Accounts receivable are recognized initially at the invoice amount, which approximates the fair value.

A provision for impairment of trade receivables is established when there is objective evidence that the LDB will not be able to collect all amounts due according to the terms of the receivables. The carrying amount of accounts receivable is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income. The amount of the provision is the difference between the asset's carrying value and the present value of the estimated future cash flows discounted at the original effective interest rate. Subsequent recoveries of amounts previously written off are credited to other income.

ii) Cash and cash equivalents
Cash and cash equivalents include cash on hand, bank deposits in transit, and bank overdrafts. Bank overdrafts are shown as bank indebtedness in current liabilities on the statement of financial position.

3. Significant accounting policies (continued)

Financial liabilities held at amortized cost
Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method and include accounts payable, tenant improvement loans, and bank indebtedness. Any resulting income or expense is recognized in the statement of comprehensive income.

i) Accounts payable
Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the payment is due within one year or less and non-current liabilities if the payment is due more than one year from the statement of financial position date.

ii) Bank indebtedness
Bank indebtedness is shown in current liabilities and included within cash and cash equivalents on the statement of cash flows as it forms an integral part of the LDB's cash management.

(c) Property and equipment
Property and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the LDB and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

i) Construction in process
Construction in process is carried at cost less any impairment loss. Cost includes professional fees, materials, direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When these assets are ready for their intended use, they are transferred into the appropriate category. At this point, depreciation commences on the same basis as the other property and equipment.

ii) Assets held under finance leases
Refer to 3(f).

3. Significant accounting policies (continued)

(d) Intangible assets

Where computer software is not an integral part of a related item of property and equipment, the software is capitalized as an intangible asset.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring them into use. Direct costs associated with the production of identifiable and unique internally generated software products controlled by the LDB that will generate economic benefits exceeding costs beyond one year are capitalized. Direct costs include software development employment costs including those of contractors used. Where assets are under construction over a period of time, these costs are recorded in a construction in progress account until put into use.

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Intangible assets acquired by the LDB have finite lives and are measured at cost less accumulated amortization and accumulated impairment losses.

(e) Depreciation of non-financial assets

No depreciation is provided on land or assets in the course of construction. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	2.5 - 5% per annum
Leasehold improvements	a minimum of 10% per annum or a rate sufficient to amortize the cost over the remaining life of the respective lease
Furniture, fixtures,vehicles and equipment	10 - 25% per annum
Information systems	25% per annum
Computer software development costs	25% per annum

3. Significant accounting policies (continued)

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each date of the statement of financial position.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive income.

(f) Leases

When assets are financed by leasing agreements that transfer substantially all of the risks and rewards of ownership to the LDB (finance leases), the assets are treated as if they had been purchased outright, and the corresponding liability to the leasing company is included as an obligation under finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables and current payables, as appropriate. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

All other leases are operating leases and the costs are recorded on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, rent-free periods and tenant allowances) is recognized as deferred income and is recognized over the life of the lease.

(g) Inventories

The LDB's inventories are valued at the lower of cost and net realizable value. Inventories are determined on a weighted average cost basis. Cost of inventories comprises all cost of purchase to bring inventories to a LDB distribution centre and includes supplier invoiced value, freight, duties and taxes. Net realizable value represents the estimated selling price for inventories less the costs to sell.

3. Significant accounting policies (continued)

(h) Impairment of assets

Assets that are subject to depreciation and amortization are reviewed at each statement of financial position date to determine whether there is any indication that assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs), which are based on the LDB's individual stores.

Non-financial assets that suffered an impairment loss are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. This reversal would be recognized immediately in the statement of comprehensive income.

(i) Employee benefit plans

The LDB and its employees contribute to the Public Service Pension Plan in accordance with the *Public Service Pension Plans Act*. Defined contribution plan accounting is applied to the jointly trusteed pension plan because sufficient information is not available to apply defined benefit accounting. Accordingly, contributions are expensed as they become payable. Employees are also entitled to specific retirement benefits as provided for under collective agreements and terms of employment. These benefits are accounted for as an expense and a liability in the period incurred.

(j) Provisions

Provisions are recognized if, as a result of a past event, the LDB has a legal or constructive obligation upon which a reliable estimate can be made, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are calculated on a discounted basis where the effect is material to the original undiscounted provision. The carrying amount of the provision increases in each period to reflect the passage of time and the unwinding of the discount.

(k) Revenue recognition

Reported revenue represents the fair value of consideration received or receivable in exchange for goods and services provided to third parties in the course of ordinary activities.

3. Significant accounting policies (continued)

Revenue is recognized when the risks and rewards of ownership are substantially transferred.

Revenue is stated net of discounts, commission, estimated returns and excludes provincial sales tax, federal goods and services tax, container recycling fees and container deposits.

(l) Other income

Revenue that is ancillary to the sales of beverage alcohol is recognized as other income. Other income includes revenue from beverage container handling fees, border point collections, and customs clearing administrative fees.

(m)Recent accounting developments

Standards and interpretations issued but not yet effective and not yet adopted by the LDB

The following new IFRS standards, amendments and interpretations to existing standards have been published by the IASB and are relevant to the LDB. They are not yet effective and have not been early adopted. The impact on the financial statements has not yet been assessed.

IAS 16 Property, Plant, and Equipment and *IAS 38 Intangible Assets* – clarifies when the method of depreciation or amortisation based on revenue may be appropriate. The amendment to IAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate. The amendment to IAS 38 establishes that amortisation of an intangible asset based on revenue generated by using the asset is appropriate only in certain limited circumstances.

The amendment is effective for accounting periods beginning on or after January 1, 2016 with early adoption permitted.

IFRS 9, 'Financial instruments'- addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in July 2014 and replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the business model and the contractual cash flow characteristics of the financial asset. There is a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39 as well as new general hedge accounting requirements. It carries forward the guidance on recognition

3. Significant accounting policies (continued)

and de-recognition of financial instruments from IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018 with early adoption permitted.

IFRS 15, 'Revenue from contracts with customers' - deals with revenue recognition and establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue', IAS 11 'Construction contracts' and IFRIC 13 'Customer Loyalty Programmes'. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16 'Leases' - requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Almost all assets and liabilities arising under lease contracts are recognized in the statement of financial position. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, but only in conjunction with IFRS 15, 'Revenue from Contracts with Customers'.

4. Sales

Total sales reported include sales to various customers including retail customers, licensed establishments, licensee retail stores and agency stores. These amounts do not include subsequent resale by licensed establishments, licensee retail stores and agency stores.

	2016	2015
	$	$
Retail customers	1,378,329	1,201,155
Licensee retail stores	965,851	914,426
Licensed establishments	532,500	495,213
Other customers	192,480	180,851
Rural agency stores	87,879	86,274
	3,157,039	2,877,919

5. Operating expenses

The LDB's operating expenses are comprised of:

	2016 $	2015 $
Administration costs	320,318	300,811
Transportation	1,153	1,047
Marketing	4,551	5,923
	326,022	307,781

	2016 $	2015 $
Salaries, wages and benefits	187,804	171,984
Rents	44,340	42,508
Bank charges	27,429	25,712
Other administrative expenses	17,871	19,492
Depreciation and amortization	16,661	16,295
Transportation	1,153	1,047
Data processing	8,569	7,038
Professional services	8,000	7,574
Repairs and maintenance	7,399	7,880
Marketing	4,551	5,923
Loss prevention	2,245	2,328
	326,022	307,781

6. Property and equipment

	Land & land improvements	Buildings & building improvements	Leasehold improvements	Furniture, fixtures, vehicles & equipment	Held assets under finance leases	Information systems	Construction in process	Total
March 31, 2015								
Opening net book value	970	2,932	26,636	7,010		6,021	2,739	46,308
Additions	-	42	170	3,248	-	4,256	8,168	15,884
Transfers	-	-	4,027	2,209	-	1,695	(7,861)	-
Disposals (cost)	(326)	(14,970)	(710)	(1,086)		(511)	(26)	(17,628)
Disposals (accumulated depreciation)	2	12,713	701	1,056	-	511	-	14,982
Amortization charge	(2)	(49)	(6,023)	(2,904)	-	(2,717)	-	(11,695)
Closing net book value	644	668	24,801	9,532	-	9,185	3,021	47,851
March 31, 2015								
Cost	647	5,817	66,514	40,856	3,900	86,471	3,021	207,226
Accumulated depreciation	(3)	(5,149)	(41,713)	(31,324)	(3,900)	(77,286)	-	(159,375)
Net book value	644	668	24,801	9,532	-	9,185	3,021	47,851
March 31, 2016								
Opening net book value	644	668	24,801	9,532	-	9,185	3,021	47,851
Assets Reclassified (Note 7)	-	-	(16)	109	(111)	(361)	-	(379)
Additions	-	65	156	2,713	-	1,732	8,422	13,088
CIP Capitalization	-	-	7,030	484	-	103	(7,623)	-
Disposals (cost)			(3)	(862)	(94)	(173)		(1,132)
Disposals (accumulated depreciation)			-	803	94	173		1,070
Amortization charge	(2)	(50)	(5,976)	(3,162)	111	(2,627)	-	(11,706)
Closing net book value	642	683	25,998	9,617		8,032	3,820	48,792
March 31, 2016								
Cost	647	5,882	73,687	43,300	3,695	87,772	3,820	218,803
Accumulated depreciation	(5)	(5,199)	(47,689)	(33,683)	(3,695)	(79,740)		(170,011)
Net book value	642	683	25,998	9,617	-	8,032	3,820	48,792

7. Intangible assets

	Intangible Assets	Construction in process	Total
March 31, 2015			
Opening net book value	8,104	1,835	9,939
Additions	485	8,872	9,357
CIP Capitalization	3,492	(3,492)	-
Disposals (cost)	(44)	-	(44)
Disposals (accumulated amortization)	12	-	12
Amortization charge	(4,600)	-	(4,600)
Closing net book value	7,449	7,215	14,664
March 31, 2015			
Cost	23,203	7,215	30,418
Accumulated amortization	(15,754)	-	(15,754)
Net book value	7,449	7,215	14,664
March 31, 2016			
Opening net book value	7,449	7,215	14,664
Assets Reclassified (Note 6)	379	-	379
Additions	103	9,937	10,040
CIP Capitalization	910	(910)	-
Disposals (cost)	-	-	-
Disposals (accumulated depreciation)	-	-	-
Depreciation charge	(4,955)	-	(4,955)
Closing net book value	3,886	16,242	20,128
March 31, 2016			
Cost	24,595	16,241	40,836
Accumulated amortization	(20,708)	-	(20,708)
Net book value	3,887	16,241	20,128

8. Prepaid expenses

Prepaid expenses include insurance, software maintenance, and wine futures. The LDB purchases select products up to three years in advance to secure future delivery of these products as part of its ongoing business practices. These products are normally purchased in foreign currency and are translated to Canadian dollars at the spot exchange rate in effect at the transaction date. At March 31, 2016, the LDB has recorded $3.3 million (2015 - $3.7 million) of prepaid wine futures for delivery in fiscal years 2017 and 2018.

8. Prepaid expenses (continued)

	2016	2015
	$	$
Wine futures	3,257	3,715
Other prepaids	3,613	3,276
	6,870	6,991
Long-term portion	(1,855)	(1,821)
Current portion	5,015	5,170

9. Due to/from Province of British Columbia

The LDB uses the Province's financial and banking systems to process and record its transactions. The amount due from the Province represents the accumulated net financial transactions with the Province. During the year, the total receipts from the Province were $2.35 billion (2015- $2.20 billion) and the total payments to the Province were $3.37 billion (2015- $3.14 billion).

10. Inventories

	2016	2015
	$	$
Store inventory	58,698	56,738
Warehouse inventory	40,285	32,839
	98,983	89,577

During the year, inventories that were recognized as cost of sales amounted to $1.8 billion (2015 - $1.7 billion).

11. Accounts receivable

	2016	2015
	$	$
Trade accounts receivable and other items	13,357	9,929
Provision for doubtful accounts	(620)	(688)
Accounts receivable and other items - net	12,737	9,241

Receivables past due but not impaired are $0.3 million (2015 - $1.0 million). During the year the LDB expensed $30 thousand (2015 -$13 thousand) in bad debts expense.

12. Other long-term liabilities

The LDB's other long-term liabilities are comprised of:

	2016	2015
	$	$
Retirement benefit obligation (note 13(b))	15,902	14,756
WorkSafe BC claims accrual (note 13(c))	9,500	8,900
Long-term portion of deferred lease liabilities (note 14)	1,647	1,982
Other	1,166	904
	28,215	26,542

13. Employees' benefit plans and other employment liabilities

(a) Public Service Pension Plan

The LDB and its employees contribute to the Public Service Pension Plan, a jointly trusteed pension plan. The Public Service Pension Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of the assets and administration of benefits. The plan is a multi-employer contributory pension plan. Basic pension benefits are based on a formula. The Plan has about 56,000 active plan members and approximately 43,000 retired plan members.

The latest actuarial valuation as at March 31, 2014, indicated a funding surplus of $194 million for basic pension benefits. The next valuation will be March 31, 2017, with results available in early 2018.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

The total amount paid into this pension plan by the LDB for the year ended March 31, 2016 was $11.8 million for employer contributions (2015 - $11.4 million), which was recorded in administration expenses.

13. Employees' benefit plans and other employment liabilities (continued)

(b) Retirement benefits

Employees are entitled to specific non-pension retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to $15.9 million (2015 - $14.8 million), which represents future employees' retirement benefits outside of the Plan and is included in other long-term liabilities. The amount expensed in the current year was $1.1 million (2015 - $1.0 million).

(c) WorkSafe BC outstanding claims

The LDB self-funds worker's compensation claims. The LDB recognizes a liability and an expense for claims that are in progress at the year-end. This liability of $9.5 million (2015 - $8.9 million) is valued by independent actuaries.

14. Deferred lease liabilities

	2016	2015
	$	$
Deferred rent	2,071	2,357
Deferred tenant allowances	49	99
	2,120	2,456
Less current portion	(473)	(474)
Long-term portion	1,647	1,982

15. Accounts payable and accrued liabilities

	2016	2015
	$	$
Trade payables	103,322	103,898
Accrued liabilities	57,473	52,184
Other payables	3,283	3,115
Current portion of obligation under finance lease	-	4
Current portion of deferred lease liabilities (note 14)	473	474
	164,551	159,675

16. Contractual commitments

(a) Leases

Future commitments for operating leases for the LDB premises are as follows:

	2016	2015
Total future minimum rental payments under non-cancellable operating leases expiring:	$	$
Not later than one year	33,309	32,692
Later than one year and not later than five years	72,654	77,770
Later than five years and not later than 25 years	15,443	14,361
	121,406	124,823

The LDB leases various stores, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The minimum lease expenditures charged to the statement of comprehensive income during the year is $33.4 million (2015 - $32.0 million).

(b) BC liquor store fees

For the year ended March 31, 2016, the LDB paid the Liquor Control and Licensing Branch $0.4 million (2015 - $0.4 million) for license fees. The fee is based on the annual sales in each Government liquor store.

(c) Payroll processing

The LDB has an agreement with the BC Public Service Agency for payroll processing. The LDB paid $0.9 million (2015 - $0.7 million) for processing services. The agreement expires in November 2019.

Other contractual commitments have been disclosed elsewhere in the notes to the financial statements.

17. Contingent items

The LDB is the sole importer of beverage alcohol in the Province. The LDB, as the importer of record, has the future liability for customs duty on import beer of $0.9 million (2015 - $0.6 million) based upon the value of the agents' inventories at March 31, 2016.

The LDB is the defendant in legal actions and it is not expected that the ultimate outcome of these claims will have a material effect on the financial position of the LDB.

18. Capital management

The LDB does not retain any equity. Net income is returned to the Province. The LDB has no externally imposed capital requirements.

19. Related party transactions

(a) Province of British Columbia

The LDB is related through common ownership to all Province ministries, agencies and Crown corporations. Transactions with these entities are generally considered to be in the normal course of operations and are recorded at the exchange amount, unless disclosed separately in these financial statements.

(b) Key management compensation

The LDB's executive management committee is defined as key management. At March 31, 2016, there were 7 (2015 - 9) members on the executive committee.

	2016	2015
	$	$
Salaries and short-term benefits	1,085	1,181
Post-employment benefits	79	88
Fees for services	188	188
	1,352	1,457

Other related party transactions have been disclosed elsewhere in the notes to the financial statements.

20. Financial risk factors

The LDB is exposed to the following risks related to its financial assets and liabilities:

- Credit risk
- Liquidity risk
- Market risk

It is management's opinion that the LDB is not exposed to significant credit, liquidity or market risk arising from these instruments.

Credit risk

Credit risk is the risk of financial loss to the LDB due to customer inability to pay for product or a counterparty to a financial instrument failing to meet its contractual obligations. The LDB's

20. Financial risk factors (continued)

exposure to credit risk is related only to the value of accounts receivable in its normal course of business, and the LDB manages this risk by minimizing the amount of transactions which require recovery. The LDB continually monitors and manages the collection of receivables. See accounts receivable note 3(b) for further disclosure on credit risk.

Liquidity risk
Liquidity risk is the risk that the LDB will be unable to meet its financial obligations as they become due.

The LDB manages liquidity risk primarily by monitoring cash flows and by maintaining the ability to borrow funds through the Province.

Market risk
Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the LDB's income or the value of its financial instruments.

While the majority of the LDB's transactions are in Canadian dollars, the LDB also transacts in Euros and US dollars. These transactions are in the normal course of business. The LDB's exposure to foreign currency risk could impact the accounts payable of the LDB. A 10% movement in the exchange rate between the Canadian dollar and the other currencies listed above would not have a material impact on the LDB.

The LDB currently does not hold any debt or equity securities and as such is not exposed to interest rate risk. As the LDB has no significant interest-bearing assets and liabilities, the LDB's income and operating cash flows are substantially independent of changes in market interest rates.

21. Reclassification

On April 1, 2015, the LDB implemented a new wholesale pricing model and eliminated wholesale purchase discounts.

The LDB also changed its accounting policy regarding outbound freight costs and now include these costs in the cost of goods sold. The impact of this change in the prior year was to increase cost of sales by $13.3 million and decrease transportation expenses by the same amount. There was no impact to net income.

The prior year's statement of comprehensive income has been reclassified for comparability.

Appendix A: BC Liquor Stores Operating Results

With the implementation of the new wholesale model, BCLS stores became a customer of LDB wholesale operations. Table 1 reflects the BCLS operating results as a customer of LDB wholesale operations, like any other private store operator. For 2015/16, BCLS net income was 6.8% of sales.

As this was the first year of operations under the wholesale model, there are no comparatives for 2014/15.

Table 1: BCLS financial results

($ millions)	2016	% sales
Net Sales	1,390.0	100.0%
Gross Margin	238.7	17.2%
Expenses	146.2	10.5%
Other Income	2.0	0.1%
Net Income	**94.5**	**6.8%**

BCLS sales include sales to all customers (e.g. counter and private stores) occurring in the stores however exclude sales to licensed establishments (hospitality) and the costs related to these sales as they are attributed to LDB wholesale operations.

The gross margin reflects the retail mark-up added to the wholesale price of product transferred from LDB wholesale operations.

The financial results do not include any head office expense allocations.

Appendix B: Additional Information

Organizational Overview

The LDB's organizational overview and corporate governance structure can be found here.

Vision, Mission And Values

Vision
That our customers have the opportunity to discover, enjoy and share the evolving world of beverage alcohol.

Mission
To be a customer-centric, profitable retailer and wholesaler of beverage alcohol dedicated to innovation, exemplary service, helpful product knowledge and corporate responsibility.

Values

Exemplary Service
We take pride in the quality of our work. We strive for excellence in serving customers and coworkers.

Corporate Social Responsibility
We encourage and support the responsible use of beverage alcohol and minimize the impact of our operations on the environment.

Integrity
We take responsibility and are fully accountable for our actions, decisions and behaviour. We are open, honest and fair.

Respect
We treat all individuals with fairness, dignity and respect.

Teamwork
We support one another to achieve corporate goals.

Innovation
We encourage our people to find innovative and creative ways to improve our business.

Contact Information

For more information, please contact the LDB Communications team:
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Appendix C: LDB Mandate and Actions Summary

In the 2015/16 Mandate Letter from the minister responsible, the LDB received direction on strategic priorities for the 2015/16 fiscal year. These priorities and the LDB's resulting actions are summarized below:

Mandate Letter Direction	LDB's Action
1. Facilitate preliminary development of a purpose-built Wholesale Distribution Centre, scheduled for occupation in 2018/19, to support capacity demands while realizing efficiencies to increase productivity.	A business plan is underway and LDB expects to be operational in a new space by 2019.
2. Develop and implement wholesale and retail pricing models scheduled for 2015/16 to promote transparency and further level the playing field between public and private retailers, and work with the Liquor Control and Licensing Branch to implement social reference pricing at the retail level.	On April 1, 2015, the LDB shifted to a common wholesale price, meaning all liquor retailers in the province were put on a more equal footing. The LDB's retail and wholesale operations were separated as a result of the changes, with responsibilities for each division clearly defined and reporting systems separated. In addition, retailers were permitted to set their own prices to the consumer. The LDB also worked with LCLB to implement social reference pricing at the retail level.
3. Comply with Government's financial policies/guidelines for mark-up, taxation and the LDB's revenue contribution to Government, and meet the LDB's 2015/16 Service Plan budget and performance targets, including net income.	As a result of strong efforts by the LDB's wholesale and retail divisions, the LDB exceeded revenue targets set by the Government by 17.1 per cent, contributing $1.03 billion in 2015/16 to help fund Government services in B.C.
4. Collaborate with Government to review, draft and finalize amendments to the *Liquor Distribution Act* that modernize, refine and further define the scope of LDB duties and authority.	The LDB collaborated with Government on amendments to the *Liquor Distribution Act*, which were brought into effect on May 14, 2015.